India’s economic outlook seems bright despite rising CAD and high debt level

The last couple of years have been one of the most challenging periods for the global economy in seven decades. First, the covid19 pandemic and now the conflict in Europe have pushed the world into fear of stagflation. In this newsletter, we compare the performance of Indian economic growth and macro-economic indicators as compared to its peer economies around the globe during these turbulent recent years.

Growth in GDP and Exports

This section compares India’s GDP growth in dollar terms in recent calendar years with prominent emerging economies using data from IMF. Indian economy, which was growing by more than 8% in 2016, started to slow down much before the pandemic. In 2018, Indian economy grew by less than 6.5%. During the pandemic period, it shrunk by more than 6% in 2020 making it one of the worst hit major global economies. While the world economy shrunk by 3% during the pandemic period, countries like Bangladesh (3.5%), China (2.2%), Egypt (3.5), Turkey (1.7%) and Vietnam (3%) managed to maintain a positive growth rate (mentioned in the brackets) even though their rate of growth declined significantly as compared to the preceding year of 2019.

In the post-lockdown period, Indian economy has shown good recovery growing by 8.9% in 2021 and is expected to grow by more than 8% in the current calendar year making it the fastest growing major economy in the world. In India's immediate neighborhood, Chinese economic growth is expected to decline to its 3-decade record low of 4.3% in the current calendar year, whereas Bangladesh whose economic growth outpaced India’s growth in the year 2017 is expected to grow by 6.4% in 2022. Emerging economies in Asia are expected to have the highest growth rate of 5.4% in 2022, whereas the Global economy is expected to grow by 3.5%.

Indian exports, which declined sharply by over 6% in 2020 due to pandemic-induced lockdowns, registered a 20% growth in 2021, double the global export growth rate of 10%. India had the second fastest export growth rate in 2021 among G20 emerging economies after Turkey. India also outpaced Chinese export growth rate which grew by 18.5% during the same period. India’s GDP per capita growth at 10% in 2021 from pre-pandemic level in 2019 at current price was also the second fastest after China among G20 emerging economies. India’s total investment as a percentage of GDP though back to its pre-pandemic level of 32%, is still lagging behind the long-term average of 34%

Macro-economic risk indicators

India's current account deficit (CAD) as a percentage of GDP was 1% in 2021, which compared to the pre-pandemic period has improved from 2.16% in 2018 and is expected to be around 2.8% in 2022, the highest since 2012. The relentless rise in CAD can be a source of vulnerability for India's macro-economic stability in the short-medium term. India's forex reserves at around 18.7% of GDP in 2021 are at par with other G20 emerging major economies like China (18.9) and Brazil (22%). India's gross debt to GDP, though has come down from 90% in 2020 to around 86% in 2021, is still among the highest in major comparable emerging economies around the world.

Conclusion

In the current calendar year, India may not be able to achieve the same level of export growth witnessed last year because of slowdown in demand in its key export markets such as USA and Europe. As a result, the key growth drivers of the economic growth in the current year are going to be revival in investment and domestic consumption. In the emerging world order, India is poised to become the rising star of the global economic growth as a result of recovery in investment and credit growth. Though rising CAD and record level of debtor GDPare key risk factors, they may not seriously undermine India's macro-economic stability. This is because in this global recessionary scenario, foreign investors will have less choice but to invest in promising markets such as India, which will take care of the funding challenge of the rising CAD. Similarly, India's debt to GDP ratio may decline as economic recovery gathers pace and as the centrality and state governments adhere to the fiscal deficit glide path, set out by the latest Finance Commission.

Notifications

Press Information Bureau

WPI index for the month of July

https://www.pib.gov.in/PressReleasePage.aspx?PRID=1852203

Loans worth about Rs. 3.67 Lakh crore have been sanctioned under ECLGS for Hospitality and related sectors

https://www.pib.gov.in/PressReleasePage.aspx?PRID=1852529

Exchange Rate Notification

https://www.pib.gov.in/PressReleasePage.aspx?PRID=1852958

DGFT

Policy amendment

https://content.dgft.gov.in/Website/dgftprod/16ea77c6-fbfb-41b0-b9c2-f9f4856d7371/Noti%2027%20Eng.pdf

CBIC

Anti-Dumping Duty notification

https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2022/cs-add2022/csadd25-2022.pdf;jsessionid=C620D755CF55271D574107799691AC4D

RBI

RBI monthly bulletin

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54225

RBI weekly bulletin

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54235